
Managerial Organization in the CIS Region: The Case of Azerbaijan Oil Market

By

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Abstract:

This article focuses on how foreign managerial structure could affect a local company, and refers to the oil market of Azerbaijan. Although Azerbaijan got independence from Former Soviet Union (FSU) the country still uses Soviet system of managerial structure in the governmental organisations. In this article we reviewed and analysed the difference in the managerial structures of foreign and local oil companies: the State Oil Company of Azerbaijan republic (SOCAR) in comparison with British Petroleum (BP) and STATOIL. These two companies had shares in the same projects together with SOCAR in Azerbaijan and represent major shareholders in total national production. Our conclusions indicate that in Azerbaijan oil companies might be practicing European managerial structure, which is improved and has a proved worldwide known system. By worldwide system we meant practicing of improved managerial structures, International Organisation for Standardization (ISO) and Health, Safety and Environment (HSE) standards, which are unavoidable divisions of the construction projects.

Keywords: Azerbaijan oil market, managerial operations, foreign oil companies.

Introduction

Oil and gas sector is considered to be more risk-sensitive sector. As the oil business managerial structure in FSU was quite different than European system, so it would be riskier for the foreign companies to start operations in CIS³ countries.

The flow of foreign investment to CIS started after collapse of the Soviet Union. After the collapse of the FSU the CIS countries in order to raise economical situation in the countries started to attract foreign investors to the country. Rudiger Ahrend and William Thompson (2007) in their article reviewed the situation in Azerbaijan and foundation of SOCAR as follows: "...While maintaining full state ownership over energy companies; Azerbaijan was quick to invite foreign investors to assume a direct role in the development of its hydrocarbon reserves. Most of the state's existing oil sector assets were

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consolidated in September 1992 with the merger of two state oil companies, Azerineft and Azneftkimiya, into the State Oil Company of the Azerbaijan Republic. While government ministries handle exploration and production agreements with foreign companies, SOCAR is party to all international consortia developing new oil and gas projects in Azerbaijan. SOCAR was created precisely for that purpose – to attract foreign players without compromising state control. The company accounts for around 60% of total oil output in Azerbaijan...”

In another article, Oksan Bayulgen (2005) states: “..Based on a presidential decree dated September 13, 1992 SOCAR maintains a near-monopoly over the management of the oil industry. Even though SOCAR has many departments and extensive organisation, only three men directed most of its affairs in the 1990s: SOCAR President Natik Aliyev, SOCAR Vice President Ilham Aliyev and Valekh Alekperov, director of SOCAR foreign relations department...”

Rudiger Ahrend and William Tompson (2007) in their article stated another point about SOCAR: “...The performance of large state-owned companies throughout the CIS suggests that such poor governance will contribute to higher costs, lower productivity and slower growth of output...”

In 1990 Azerbaijan got independence; until that time the country was operated by the Soviet government system. Only starting from 1992 the company started to operate under the Azerbaijan republic law and regulations. From 1994 to 2002 more than 20 oil contracts were signed with 35 large multinational oil companies from 15 countries. According to these contracts in the years to come 60 billion dollars of foreign investment will be invested in oil and gas sector.

Together with the national oil company SOCAR, other international companies worked both industrially and socially to build a solid basis for investments in Azerbaijan. Oil in Azerbaijan has been produced for 150 years; by 1911, half of the world oil was produced in Azerbaijan.

The two main companies that will be analyzed in this article are BP and Statoil. BP is multinational oil company with headquarter in London. History of BP is starting from 1908 with oil found in a rugged part of Persia. For the years BPs organisational structure and managerial organisations were changed several times and formed in a unique system that operates in all over the world. BP started its operation in Azerbaijan from 1994, with the signing of Azeri-Chirag-Deepwater Gunashli (ACG) and Shah Deniz project sharing agreement (PSA).

On the other hand, in 1972, the Norwegian State Oil Company, Statoil, was formed, and two years later the Statfjord field was discovered in the North Sea. In 1979, the Statfjord field commenced production, and in 1981 Statoil was the first Norwegian company to be given operator responsibility for a field, at Gullfaks in the North Sea. At the time of the merger, Statoil was operator for 39 oil and gas fields on the Norwegian continental shelf.

Statoil and Hydro have been the two most central players in the Norwegian oil industry since the early 1970s. Both companies have made key contributions to developing Norway into a modern industrial nation. Statoil's activities in Azerbaijan are among the biggest commitments in a single country.

Methodology

In below mentioned table were given Azerbaijan facts and figures from 2007.

2007 Azerbaijan facts & figures

Item	Estimate
Area ^I	86,600 sq km (33,774 sq miles)
Population, total (millions) ^I	8.5
Gross Domestic Product (GDP) (current US\$) (billions) ^I	29.4
GDP growth (annual %) ^I	25
Non oil GDP (US\$ billions) ^{II}	10.99
Non oil GDP (% of GDP) ^{III}	36.83%
Inflation, consumer prices (annual %) ^I	16.70%
Capital investment (% of GDP) ^{III}	26.85%

^I State Statistical Committee (SSC): <http://www.azstat.org>.

^{II} National Bank of Azerbaijan (NBA): <http://www.nba.az>.

^{III} Original data from NBA with BPs calculation.

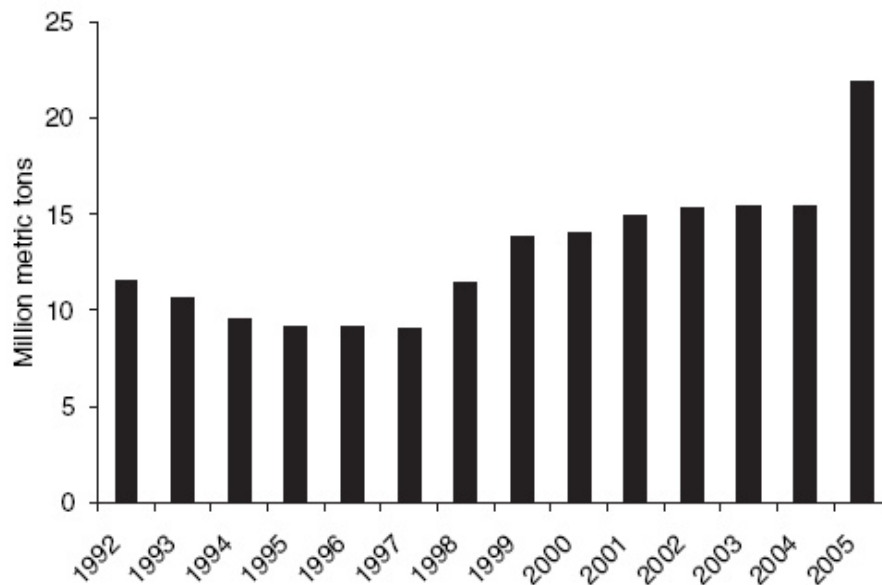
Graph 1: Foreign investments (mln. US dollars)

	1995	1999	2000	2001	2002	2003	2004
Total foreign investments	375.1	1091.1	927	1091.8	2234.9	3273.3	4056.3
Of which:							
Financial credits	220.4	336.2	262.9	192	223.0	213.0	75.0
In oil industry	139.8	544.5	546.1	820.5	1693.0	2810.2	3659.2
Foreign companies and joint ventures	14.9	210.4	118	79.3	318.9	250.1	322.1
Of which:							
Turkey	6.8	67.8	31.6	11.8	55.6	30.4	34.0
USA	2.1	29.8	11.2	16.9	41.4	42.8	45.5
Iran	0.9	9.2	2.9	-	2.7	0.1	-
Germany	1.2	6.2	1.7	1.2	1.7	0.5	0.1
Russia	0.7	-	-	1.4	0.7	1.6	1.1
United Kingdom	0.7	45.8	6.8	15.1	108.1	97.5	96.7
Bulgaria	0.1	-	-	-	-	-	-
UAE	0.7	7.6	2.8	0.7	0.2	1	63.5
Switzerland	1.2	-	-	8.3	-	-	0.1
Italy	0.1	-	-	-	-	14.7	14.4
Kanada	-	-	-	-	-	-	2.9
France	-	25.4	39.3	7.6	25.7	14.7	15.4
Norway	-	-	-	-	31.6	25.6	26.0
Japan	-	-	16.4	4	23.7	17.4	18.1
Other	0.4	18.6	5.3	12.3	27.5	3.8	4.3

Source: State Statistical Committee (SSC): <http://www.azstat.org>.

The Graph # 1 shows foreign investment data starting from 1995 up to 2004. The table gives an idea about yearly increase of foreign investment into the oil industry of Azerbaijan republic. The United Kingdom with the company British Petroleum did big investments during seven years into Azerbaijan oil business. The company is still operating in Azerbaijan's major oil projects and has a long-term investment activity.

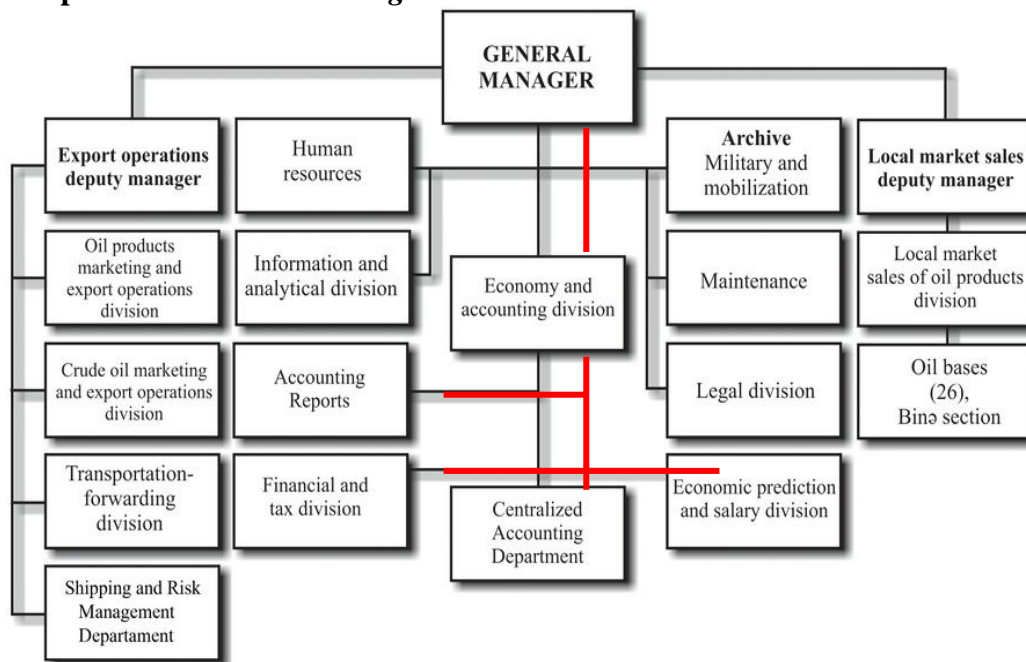
Graph 2: *Production of crude oil and natural gas liquids in Azerbaijan, after the foreign investment flow*



Source: International Energy Agency, Oil Information 2005 Database

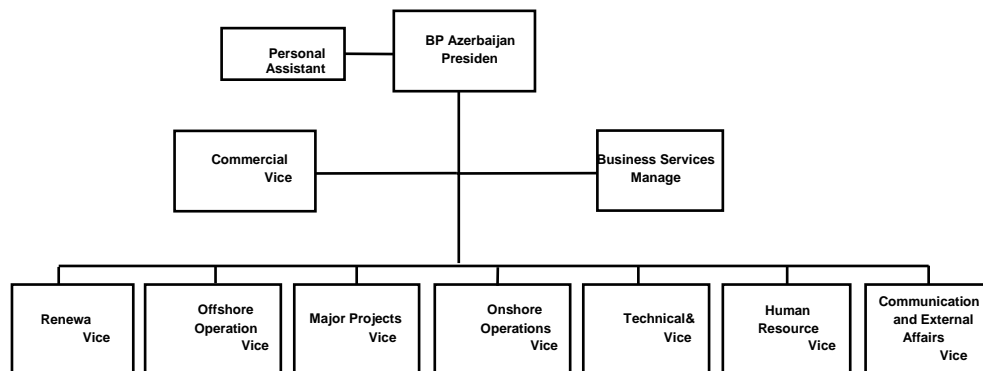
The following diagram gives a view about increased production of crude oil and natural gas liquids in Azerbaijan after 1990s with the construction of ACG oil platforms, Shah Deniz gas field and Baku-Tbilisi-Ceyhan (BTC) oil pipeline projects. The reason of presenting the above mentioned data is to show BP's active operation in Azerbaijan oil industry.

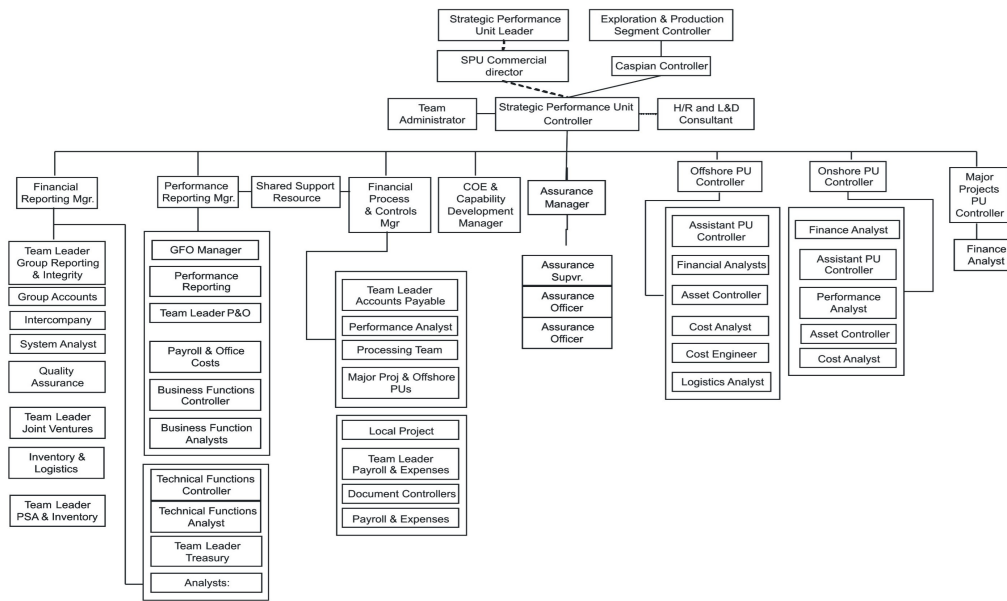
Now we will review all three company's managerial organisation charts and structure.

Graph 3: The SOCAR Managerial structure

Source: http://www.socarmo.az/about_divs.shtml

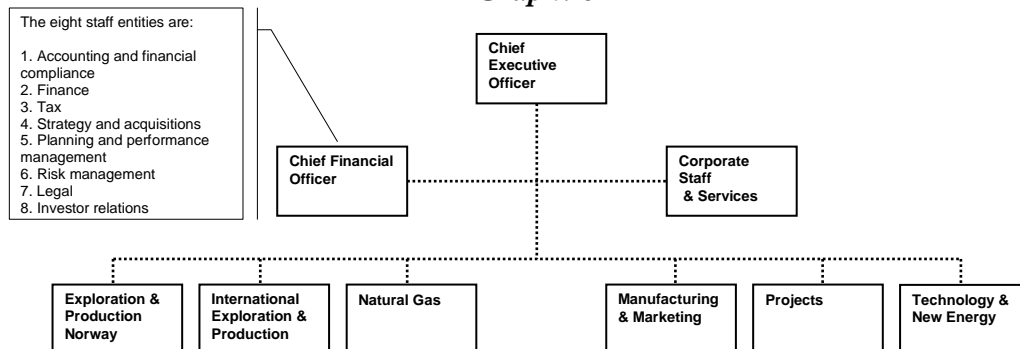
BP

Graph 4: The BP Managerial structure

Graph 5: Financial Control and Accounting organisation chart

STATOIL

StatoilHydro consists of six business areas and two staff and support divisions. The chief financial officer (CFO) organisation is responsible for strategy development, performance monitoring, financial management and legal services. Finance operations consists of the following eight entities as below mentioned.

Graph: 6

Data Analysis

From the following charts which are determining the company's operations, it's clear that how SOCAR, BP and STATOIL companies' managerial structure are operating.

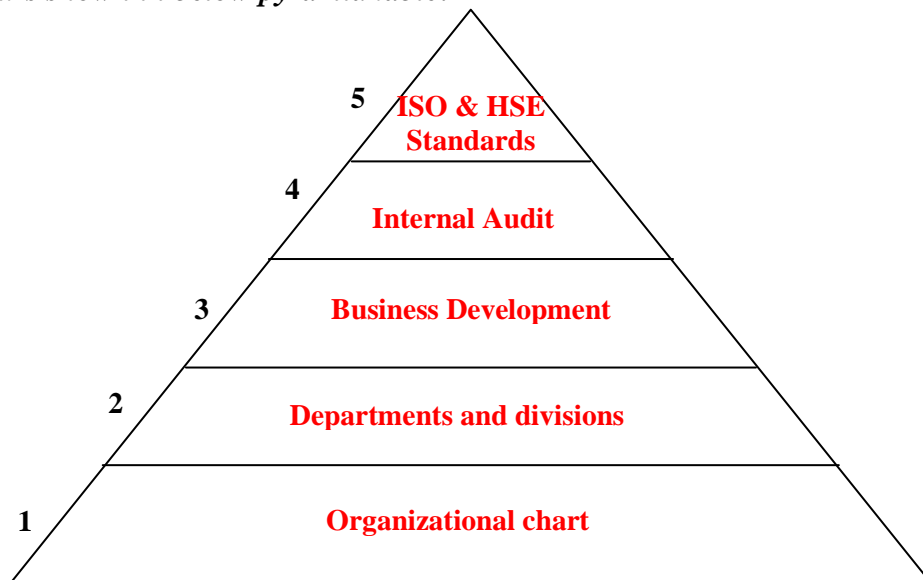
In SOCAR's Managerial chart we may conclude that the company's financial departments are working independently, and reporting directly to the General Director of the company.

However it's very important that financial department should have more widened divisions as cost-control, cost analyst, internal auditing departments.

In British Petroleum financial and accounting chart we reviewed that the financial and accounting department has several divisions and team parts of the departments, which is result of quality operations of the company. BP history and operations is started from 1908, so for the years it's enhanced and experienced. When getting the project in other country, the BP Company was creating procedures for that country. By following the procedures created specifically for that country the company was avoiding risks in that country.

Statoil is also practicing same system as British Petroleum. Statoil at the present is working in oil and gas projects all over the world.

Graph: 6 Qualitative and successful managerial structure in oil business should have better established structure of departments and structures consistency as it's shown in below pyramid table:



What gives us this table?

1. Organizational chart

The company should have right built organizational chart, i.e. tough foundation. It has to be constructing primarily in proper way. The main key of the company is right managerial structure. That's why it should be placed in the first row.

2. Department and divisions

The company should create all required departments and all divisions. It's on the second row, and has to support organization structure.

3. Business development

Every company should develop its business in order to have successful operations, profits and future activities. The company's life depends on its future opportunities. So we put it in third row.

4. Internal auditing

This activity is a review of the company's operations, financial flow, risk assessment and forecasting. Every oil company which has big projects should value existence of this department in order to avoid risks.

5. ISO and HSE Standards

It's the technological support for construction projects and Oil Companies. The company should meet ISO and HSE standards to give assurance to the companies and its employees.

Conclusion

Azerbaijan is independent oil rich country. By attracting investors the government's major oil companies primarily should understand the system and structure of investor's organizational structures.

If SOCAR will start to practice the European managerial organization system, the quality and standards of the company will be meeting the requirements of the world standards, as the standards are unique for all oil companies.

SOCAR is a governmental organization which should have long-term operations in oil business. The long-term activity depends on right organizational structure.

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